Credit Suisse Group AG

Q4 2021: Weak revenue, goodwill impairment and litigation charges led to large loss

In Q4 2021, Credit Suisse Group AG (CS, Baa1 stable\(^1\)), the parent holding company of Credit Suisse AG (A1 stable/A1 stable, baa2\(^3\)) reported\(^4\) a net loss of CHF2 billion. The reported result was negatively impacted by CHF1.6 billion goodwill impairment and CHF436 million litigation charges. The adjusted\(^5\) net return on tangible equity (ROTE) stood at 2.4% (Q4 2020 adjusted: 6.8%), while the adjusted annualized return on assets (RoA) and risk-weighted assets (RWAs) stood at 0.13% and 0.37%, respectively (Q4 2020 adjusted: 0.32% and 0.94%, respectively).

Credit Suisse’s underlying results continued to suffer from the fallout from the Archegos and Greensill events: revenue decreased 12% compared to the same quarter the previous year and 16% compared to the previous quarter, partly reflecting reduced risk appetite which translated into lower investment banking and wealth management revenue. Compensation and benefit costs decreased 16%, mainly due to lower deferred compensation awards, only partially offsetting the decrease in revenue. CS reported a CHF 15 million of provisions release in the quarter (excluding Archegos). The goodwill impairment charge of CHF 1.6 billion mainly related to the acquisition of Donaldson, Lufkin & Jenrette (DLJ) in 2000.

For 2021 full-year, CS reported a net loss of CHF 1.6 billion compared to net income of CHF 2.7 billion in 2020. 2021 results included CHF 1.6 billion goodwill impairment charges and CHF 4.2 billion provision for credit losses mainly driven by a CHF 4.3 billion charge due to Archegos’ failure to meet its margin commitments, which was reflected in the Investment Bank. On an adjusted basis, excluding significant items and Archegos, revenue increased 2% due to higher revenues in Asset Management, Investment Bank and Swiss banking partly offset by lower net revenues in International Wealth Management. Adjusted operating expenses decreased 4%, reflecting lower variable compensation costs.

We expect 2022 results to be weak. 2022 will be a transitional year: revenue will reflect the negative impact of the exit from the prime brokerage business, a lower capital markets revenue pool, and pressures on wealth management; costs will be adversely affected by the restructuring and higher compensation compared to 2021 and by the volatility in the share price of Allfunds Group holding.

Long-term profitability targets are challenging but reasonable: in November, management announced it targets a return on tangible equity (ROTE) of 10% in 2024. Achieving 2024 targets will largely stem from the restructuring plan, which aims to deliver revenue growth with moderate restructuring costs and incorporates execution risks and from
addressing historical risk management weaknesses and enhancing the risk culture, which will take time.

**Strong liquidity maintained**. CS reported an LCR of 203% in Q4 2021, down from 221% in Q3 2021. Maintaining above-average liquidity and strong capital ratios remains important to CS because of its sizeable global wealth management and capital markets franchises. The deposits and short-term market funding of these businesses are more confidence-sensitive than for traditional banks, potentially exposing CS to liquidity stress in an adverse scenario (e.g., another material reputational event).

**Capital ratios remained solid**. CS reported a CET1 capital ratio of 14.4% (see Exhibit 1), unchanged from the previous quarter. CS further improved the CET1 leverage ratio to 4.4% (Q3 2021: 4.3%) and the Tier 1 leverage ratio to 6.2% (Q3 2021: 6.1%). Both CET1 and Leverage ratios benefitted from reductions of RWAs (-4%) and leverage exposure (-5%) in the quarter. The bank confirmed its targets to keep CET1 ratio above 14% and CET1 leverage around 4.5%. A strong capital position provides buffers against earnings volatility.

**Update on Archegos and Greensill**

The independent external investigation report on the Greensill event has been completed. The Board reviewed the findings and shared the report with FINMA; however, it decided it will not publish the report, due to legal complexities and the ongoing recovery process. With regard to the funds, at end-2021:

- the focus areas accounted for around USD 2.2 billion of the net asset value (NAV) as of 25 February 2021; total cash paid out and current cash and cash equivalents were at approximately 72% of the funds' NAV as of 25 February 2021; cash payments to investors were around USD 6.7 billion.

- the non-focus areas accounted for around USD 0.4 billion of the NAV as of February 25, 2021, a reduction of around 90%.

**Lower net new assets will impair future revenue generation**

During the fourth quarter, CS’s wealth and asset management businesses combined recorded inflows of CHF1.6 billion compared with inflows of CHF5.6 billion in Q3 2021. The outflows were recorded in the Swiss Universal Bank Private Clients division and Asia Pacific. The Asset Management and International Wealth Management divisions recorded inflows of CHF 4.7 billion and CHF2.7 billion, respectively. Assets under management of CHF1.6 trillion were broadly stable in the quarter. Despite improving franchise
momentum in the first month of 2022, lower new money inflows could pose a drag on future revenue generation in the wealth and asset management businesses.

### Exhibit 2
**New new money outflows, following challenging months**

Net New Assets (NNA) by region, CHF billion

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Source: Company financials, Moody’s Investors Service

### Segmental results commentary
Unless indicated otherwise, figures displayed below are on a CS adjusted basis excluding significant items and comparisons are made versus Q4 2020. The segment figures have been restated following the creation and subsequent separation of a new Asset Management segment, starting with Q2 2021.

### Exhibit 3
**Underlying performance weakened in the quarter**

Credit Suisse Group's adjusted profit before tax by segment, CHF million

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Source: Company results presentations and financials, Moody’s Investors Service

The **Swiss Universal Bank (SUB)** reported adjusted pretax profits of CHF546 million, up 41%, supported by stronger revenues, lower operating expenses and release of credit losses. Adjusted net revenues excluding significant items increased 6%, driven by increases across all major revenue categories with an 13% increase of recurring commissions and fees supported by higher AuM levels and revenues from improved performance in investment in Swisscard. Adjusted operating expenses decreased 3% driven by lower compensation expenses. Net new assets outflows of CHF1.7 billion reflected CHF1.8 billion outflows in Private Clients.

**International Wealth Management (IWM)** reported adjusted pretax profits of CHF25 million, down from CHF206 million last year, driven by lower revenues and higher operating expenses. Adjusted revenues excluding significant items declined 19% owing to
significantly lower transaction and performance-based revenues (-40%) due to more normalized client activity. Operating expenses increased 7% due to higher investments in infrastructure, risk and sustainability initiatives as well as higher compensation expenses. IWM saw net new assets inflows of CHF2.7 billion supported by strong inflows in emerging markets and Western Europe.

**Asset Management (AM)** reported adjusted pretax profits CHF79 million compared with CHF115 million last year. Adjusted revenues were stable as higher management fees were not able to offset lower performance and placement revenues that experienced exceptional 4Q20 performance fee levels. Adjusted operating expenses increased 10% driven by higher compensation costs and expenses related to the supply chain finance funds matters. Net new assets inflows of CHF4.7 billion were driven by inflows from investments and partnerships and traditional investments.

In **Asia Pacific (APAC)**, adjusted pretax profits of CHF94 million decreased 58%, largely driven by lower revenues. Adjusted revenues excluding significant items were down 20% as lower transaction-based revenues and lower net interest income were partly offset by higher recurring commissions and fees. Adjusted operating expenses were down 3% mostly reflecting lower compensation expenses.

The **Investment Bank (IB)** reported an adjusted pretax loss excluding Archegos of CHF213 million compared with pretax income of CHF325 million. Revenues decreased 31% (in USD terms) reflecting stronger base last year as well as CS's strategy to reduce capital and risk across all businesses during 2021. Advisory revenues increased 51% due to market share gain. Capital market revenues decreased 48% reflecting lower risk appetite in Leveraged Finance business and slowdown in SPAC activity. FICC revenues decreased 38% year-on-year, considerably underperforming its US peers (-15%), reflecting lower activity in Credit. Equity Sales & Trading revenues declined 26% due to continued de-risking in Prime Services. Adjusted operating expenses decreased 5% due to reduced compensation.

The **Corporate Center** reported a pre-tax loss of CHF478 million compared to a loss of CHF1,090 million. Negative net revenues of CHF87 million were mostly driven by negative treasury results. Operating expenses decreased 63% mainly due to lower general and administrative expenses. 4Q21 included CHF295 million litigation provisions, primarily related to legacy litigation matters.

**Ratings Considerations**

We assign Baa1 senior unsecured debt ratings to Credit Suisse Group AG and A1/P-1 senior unsecured debt and deposit ratings to its principal bank subsidiary, Credit Suisse AG. CS's ratings reflect (1) the bank's baa2 Baseline Credit Assessment (BCA) and Adjusted BCA; (2) the result of our Advanced Loss Given Failure (LGF) analysis, providing three notches of uplift to the bank's senior unsecured debt and deposit ratings; and (3) one additional notch of rating uplift stemming from our expectation of a moderate level of government support. The outlook is stable on the senior ratings.

**Moody's related publications**

**Credit Opinion**

» [Credit Suisse Group AG](#), October 2021

**Issuer Comments and In-Depth Reports**

» [Global Investment Banks – US: Continued investment banking and assets management strength offset by lower reserve releases and higher expenses](#), January 2021

» [Q3 2021: Litigation charges and a high tax rate tempered operating improvements](#), November 2021

» [Risk management and governance issues may undermine franchise and earnings stability](#), July 2021

» [IBOR phaseout 15 months away, but hurdles could stretch beyond finish line](#), September 2020

» [Biggest banks are better set to withstand COVID-19 stress than banks as a whole](#), September 2020

» [Stable wealth-management arms of largest Swiss and US banks are a credit positive offset to COVID-19 disruption](#), September 2020

» [Global investment banks’ strong liquidity helps insulate creditors](#), May 2020
» Global Investment Banks: Estimated profit hit in coronavirus shock scenario should not take toll on capital, April 2020

» Fintech - Global Investment Banks: GIBs can keep pace with fintechs, but retail banking is most at risk of a digital divide, February 2020

Rating Action

» Moody’s downgrades Credit Suisse AG’s senior unsecured debt and deposit ratings to A1; outlook stable, July 2021

Rating Methodology

» Banks Methodology, July 2021

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.
Endnotes

1. All figures in this report relate to Q4 2021 and comparisons are made to Q4 2020, unless otherwise indicated.
2. The rating shown is Credit Suisse Group AG’s long-term senior unsecured debt rating and outlook.
3. The ratings shown are Credit Suisse AG’s long-term deposit rating and outlook, its long-term senior unsecured debt rating and outlook and its Baseline Credit Assessment (BCA).
4. Unless indicated otherwise, figures displayed in this report are on a Credit Suisse Group AG adjusted basis.
5. We take Adjusted income/(loss) before taxes excluding significant items and Archegos and assume a normalized 25% tax rate.
6. Liquidity coverage ratio
7. Special purpose acquisition company